

Manufactured Housing Under Renovation

By [DAWN WOTAPKA](#) And [A.D. PRUITT](#)

Highland Estates, a residential community in Greenwich Township, Pa., has all the trappings of a pastoral idyll: manicured lawns, pristine roads and quaint homes perched on 55 acres offering views of the countryside.



UMH Properties - Highland Estates, a 327-space community in Kutztown, Pa.

But this isn't yet another ritzy suburban community. The homes in Highland Estates are made in a factory and assembled on site.

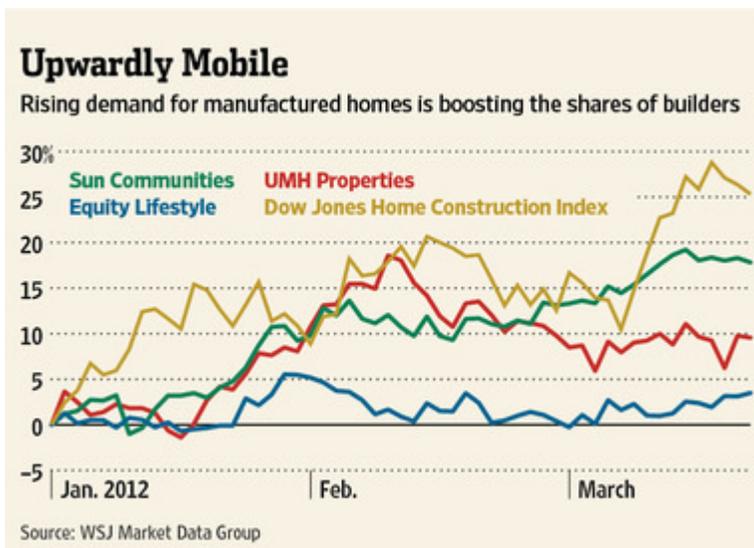
In other words, they are examples of the latest generation of manufactured homes, which some corporate executives hope will help to update the industry's image to get beyond its association with trailer parks.

Many manufactured homes today are built to resemble traditional single-family homes. Hitches are gone. Kitchens include wood cabinets and granite countertops, not just laminate and plastic. Walls are made from drywall rather than fake wood paneling.

The industry—and Wall Street—also is betting that consumer attitudes toward housing have been updated, that buyers are soured on the bigger-is-better mantra of the boom years and looking for affordable alternatives.

There are early signs of a rebound. The Census Bureau reported 51,600 shipments of new manufactured homes in 2011, an increase of 3.2% from the prior year. In January, shipments were 3,945 new homes, up 42.1% from January 2011, according to the Manufactured Housing Institute.

By contrast, sales of newly constructed traditional single-family homes sank nearly 6% last year to 304,000, the smallest tally since the government began collecting data on the industry in 1963.



"Years ago, people were leaving manufactured houses to go to a stick-built community. Many of those people are returning and probably disappointed with the experience of trying to achieve the single-family dream," says Thomas Heneghan, chief executive of [Equity LifeStyle Properties Inc.](#), [ELS -0.10%](#) the nation's largest owner of manufactured-housing communities.

In his annual letter to shareholders released in late February, [Berkshire Hathaway Inc.'s BRKB -0.31%](#) Warren Buffett noted the company's Clayton Homes division, which makes manufactured homes and arranges mortgages for buyers, continues to operate profitably and its mortgage portfolio has performed well. Mr. Buffett said he expects earnings to "improve materially" when the nation's excess housing inventory is worked off.

To be sure, current sales remain well below the industry's heyday. In 1998, 373,000 homes were shipped, according to the Census. But that was during a time of lax lending standards, which led to a wave of repossessions that left plenty of cheap, used manufactured homes available and little demand for new products.

The industry's woes were worsened by cheap credit for traditional homes, which lured people with modest incomes away from manufactured housing. As a result, the sector was clobbered during the housing crisis, with shipments hitting a low of 49,800 in 2009.

But Wall Street has been warming to the sector. While prices of most home builders—traditional and nontraditional—have rallied this year, stocks of manufactured housing companies were first out of the gate. The three manufactured-home real-estate investment trusts tracked by Dow Jones All Equity REIT Index posted a total return of 20.5% in 2011. By comparison, the Dow Jones US Home Construction Index fell 3.9%.

Paul Adornato, an analyst at BMO Capital Markets, says investors believe more people who have downsized their housing will give manufactured housing a chance. Makers of

manufactured homes say they are seeing interest in their homes from a wide spectrum of buyers, from young families to retirees. Cost is a big draw—the average sales price for a manufactured home was nearly \$64,000 in December, according to the Census, while the average price of a traditional new home was \$264,900.

Lower property taxes and location are factors, too. Many communities were built decades ago in prime locations that couldn't be built today because of increased land values and community opposition.

Six years ago, Carol and Robert Egbert purchased a spacious three-bedroom manufactured home in Highland Estates for \$86,000. The retirees have added their own upgrades—hardwood floors and a new shower—and landscaped the front yard. They praise the community's small-town feel and enjoy sitting on their porch. "We like the peace," Ms. Egbert says.

Still, the industry is well aware that many people still associate manufactured housing with flimsy trailers that, while they are still around, haven't been built since federal code changes set tougher manufacturing standards in 1976. Sam Landy, president of [UMH Properties Inc.](#), [UMH -1.02%](#) which owns Highland Estates, says manufactured homes are built as well or better than stick-built houses. "Our houses can go down the highway at 60 miles per hour and nothing happens to them," he says.

A version of this article appeared Mar. 21, 2012, on page C8 in some U.S. editions of The Wall Street Journal, with the headline: Manufactured Housing Under Renovation.